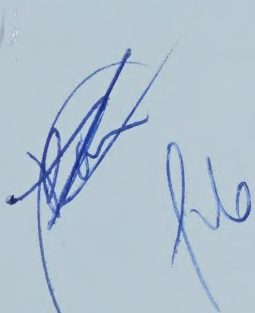
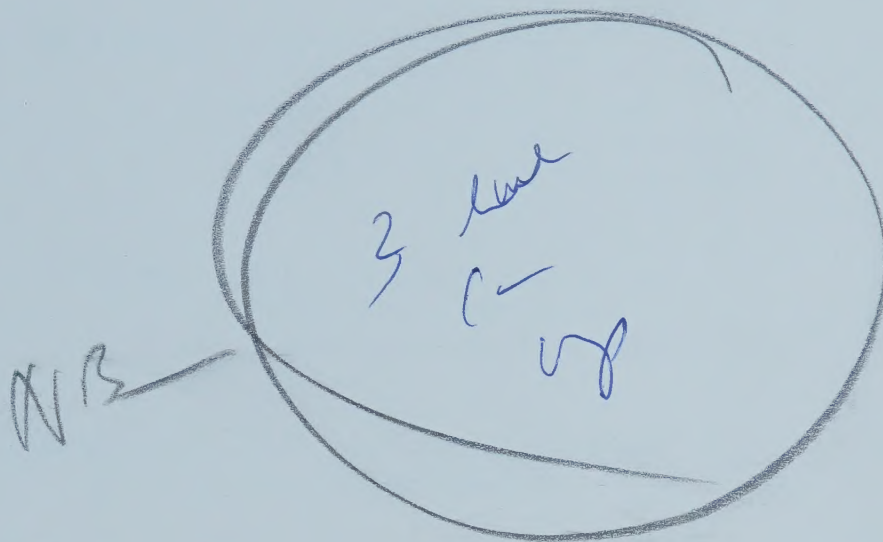


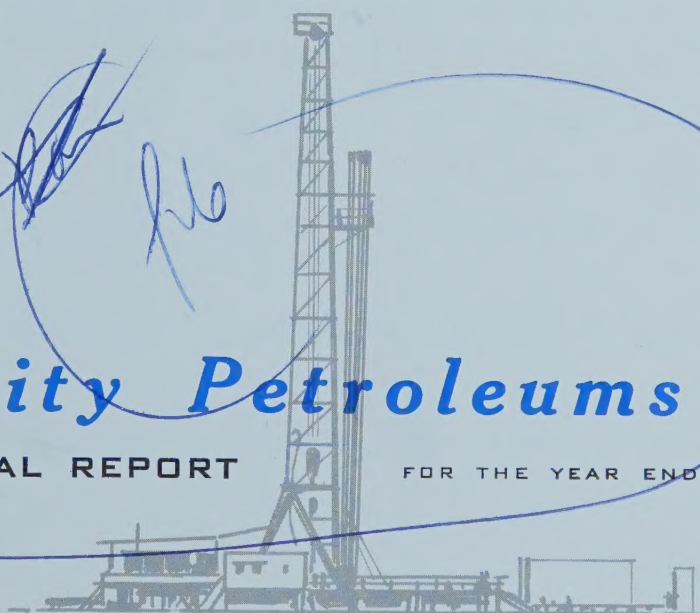
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# *Mill City Petroleums Limited*

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1969



*A member of the DYNAMIC GROUP*



## ANNUAL REPORT

December 31, 1969

# Mill City Petroleums Limited

(Incorporated under the Dominion Companies Act)

*A member of the Dynamic Group\**

### DIRECTORS

ROGER D. PAUGH, *Calgary*  
FRANK BROWN, *Calgary*  
ROBERT CLIVE BROWN, *Calgary*  
ARCHIBALD PARK NEWALL, JR., *Calgary*  
ARCHIBALD PARK NEWALL, SR., *Calgary*

### OFFICERS

ROGER D. PAUGH, *President*  
FRANK BROWN, *Vice-President*  
ROBERT CLIVE BROWN, *Secretary-Treasurer*

### HEAD OFFICE

210 - 736 - 8TH AVENUE S.W.  
CALGARY 2, ALBERTA

### AUDITORS

PEAT, MARWICK, MITCHELL & CO., *Calgary*

### BANKER

THE ROYAL BANK OF CANADA, *Calgary*

### REGISTRAR

GUARANTY TRUST COMPANY OF CANADA, *Calgary*

### TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA, *Calgary & Toronto*

### SHARES LISTED

TORONTO STOCK EXCHANGE, *Toronto*

\* The term "Dynamic Group of Companies" is used to refer to the following companies collectively: Permo Gas & Oil Limited and its subsidiaries, New Continental Oil Company of Canada Limited and Consolidated East Crest Oil Company Limited, together with affiliated companies, Dynamic Petroleum Products Ltd., Royal Canadian Ventures Ltd., Mill City Petroleums Limited, Crusade Petroleum Corporation Limited, Dynalta Oil & Gas Co. Ltd. and Dynamic Mining Exploration Ltd. (No Personal Liability). These companies are separate and distinct Canadian corporations having an interlocking directorate, interlocking share positions, common management and the same executive offices.

## TO THE SHAREHOLDERS

We are pleased to present to our shareholders the annual report and financial statements of the company for the year ended December 31, 1969.

## MINERAL EXPLORATION HIGHLIGHTS

During the year under review the company, in co-operation with associated companies, has participated at little cost to itself in extensive widespread mineral exploration programs in the Provinces of British Columbia and Saskatchewan and in the Northwest Territories. These programs which are covered in greater detail elsewhere in this report have resulted in proving up additional reserves of ore around the Gulf Minerals Rabbit Lake uranium discovery; several new uranium prospects in the vicinity of, or on trend with, the Gulf Minerals Rabbit Lake discovery, which are now being evaluated by diamond drilling; significant discoveries of uranium and other minerals in the Baker Lake region of the Northwest Territories; a significant discovery of porphyry type copper mineralization in the Barriere Lake area near Kamloops, British Columbia, and in outlining numerous other mineral prospects in western Canada to be diamond drilled during 1970.

## GULF MINERALS URANIUM DISCOVERY

The Rabbit Lake uranium ore body in the Wollaston Lake area of the Province of Saskatchewan discovered in late 1968 by Gulf Minerals Company, a wholly owned subsidiary of Gulf Oil Corporation, has been declared by Gulf officials to be a viable mining project or, in other words, exploration work done to date has established an ore body of sufficient quantity and quality to proceed with the construction of a mill. However, there are two major obstacles involving political considerations and markets to be overcome before Gulf will be prepared to announce its construction plans.

On March 2, 1970, Prime Minister Trudeau announced in the House of Commons that the Canadian government would be implementing regulations with regard to ownership in the Canadian uranium industry. On March 20, 1970, Energy, Mines and Resources Minister J. J. Greene made a statement in the House of Commons to the effect that the government proposes to limit, by regulation, the extent of ownership of uranium producing enterprises in Canada by non-residents of Canada. Among other things, the Minister stated:

- That the regulations would distinguish between existing properties of demonstrated productive capacity and those developed in the future on the basis of exploration.

- That there would be a limit of 33% upon the aggregate foreign ownership of any uranium property of established productive capacity.
- That with regard to existing mines, the regulations will be effective as from the date of the Prime Minister's statement on March 2nd, but will not be retroactive in the sense of requiring foreign interests then holding more of the ownership than the prescribed limits, to divest themselves of surplus holdings.

With regard to the above item, Energy Minister Greene is reported to have told Parliament on April 10, 1970 that he felt the Gulf development fell within the retroactive guidelines and that Gulf would not be subject to the ownership restrictions. On May 5, 1970, Energy Minister Greene further clarified this situation to the extent that foreign controlled companies engaged in uranium exploration on March 2nd will have six years in which to establish the commercial viability of their properties, in which event they would not be forced to reduce the level of their foreign ownership. We are informed, among other things, that this latter announcement gives Gulf the confidence to proceed with an active program to find additional mines on the properties that are subject to our agreement.

As mentioned above, Gulf is not prepared to announce its plans to proceed with the construction of a mill in the area until the aforementioned government regulations are officially introduced and their position thereunder is established. In the interim, however, and presuming a favourable status quo, Gulf has stated, among other things, that:

- If the two major obstacles involving government legislation and markets are overcome, construction of a mill could start this year.
- Gulf must have assured markets since uranium at present is in surplus supply. However, in this regard, Gulf is of the opinion that it will be able to dispose of its uranium production providing the ownership situation aforesaid is favourably clarified.
- While Gulf does not want to divulge the size of the ore body or the grades of ore, it is obvious that to justify a mill with a capacity of 2,000 tons of ore per day, producing 2,000 tons of uranium oxide per year and involving an investment of \$50,000,000, the ore body must be big.

- The mill would take three years to complete and would eventually employ about 400 highly skilled workers. The design would facilitate very quick and easy expansion.
- For purposes of comparison, preliminary engineering designs for the mill with an initial annual capacity of 2,000 tons of uranium oxide, would make it capable of serving the needs of four of the largest nuclear reactors built, or about 25% of the total current U.S. demand.
- The mine will be an open pit operation, as opposed to a shaft mine.
- The development of a mine and mill will involve the building of a new townsite and in this regard, according to Premier Thatcher, the Department of Municipal Affairs of the Province of Saskatchewan is already looking into this situation.

We are hopeful that the regulations referred to herein will be officially introduced within the next few weeks and that Gulf will be able to announce definite plans concerning construction of a mine and mill in this area.

Mill City Petroleum Limited has a direct 12.5% interest in 20% of the net profits accruing under the terms of the agreement entered into with Gulf Minerals Company. This agreement covers approximately 1,244,366 acres of permit lands in the Wollaston Lake area and includes the Rabbit Lake ore body.

Shareholders of the company will be kept informed concerning further developments.

## GENERAL

The directors wish to express their appreciation to the shareholders for their interest in the affairs of the company and to the employees for their loyalty and personal interest in our activities.

On behalf of the Board,

ROGER D. PAUGH

President

June 1, 1970

## **MINING EXPLORATION AND DEVELOPMENT**

Following is a regional summary of the mining exploration and development ventures in which Mill City Petroleum Limited has participated during the year under review in co-operation with associated companies. The various regions and areas are illustrated by maps throughout this report.

### **BRITISH COLUMBIA**

In the Province of British Columbia the Dynamic Group of companies operates under the name of Royal Canadian Ventures Ltd. from an office in Kamloops. An active exploration program was continued in 1969 and several new properties were added to the companies' holdings. Activities have been largely centred around the Kamloops area and northward as far as the Babine Lake area, where a total of 1,180 mineral claims are held by the Group in 23 separate properties of which 3 are scheduled for diamond drilling evaluation in 1970. The various properties are shown by areas on the map of British Columbia accompanying this report and following are more detailed particulars pertaining to certain of these areas. The company has a 14.3% working interest in these properties with the exception of Area 18 and in Areas 23 and 24 the company has a 90% working interest.

#### **Areas 8 & 10**

These two areas comprising a total of 32 mineral claims have been studied by geophysical, geological and geochemical surveys during the past summer and anomalous areas have been outlined. Present plans call for diamond drilling on both properties, which are considered copper prospects, during 1970.

#### **Area 19**

This area comprises 73 mineral claims and 2 mineral leases located in the Iron Mask area, southwest of Kamloops, B.C. An exploration agreement has been entered into with Great

Plains Development Company of Canada Ltd., under the terms of which Great Plains can earn a 60% interest in these lands by the expenditure of certain funds over the next 3 years. Geophysical, geochemical and geological work has been conducted over some of these lands and two interesting copper anomalies have been outlined. Great Plains has been proceeding with diamond drilling operations since early in 1970 and results to date are very encouraging.

#### **Areas 11 & 13**

These areas comprising a total of 374 mineral claims are located in the Barriere Lake region approximately 50 miles north northeast of Kamloops, B.C. During the past summer, geophysical, geological and geochemical surveys were conducted on certain of these lands, namely those designated as East Barriere Lake on the map accompanying this report. Five vertical diamond drill holes totalling 2,200 feet were put down on 400-foot centres on a geochemical anomaly approximately 9,000 feet long by 2,000 feet wide. These showed extremely interesting copper mineralization in each hole. Two porphyry type mineralized zones are indicated, one approximately 100 feet in thickness and the other approximately 50 feet in thickness. Chemical assays of these zones yielded copper values ranging from 0.20% to 0.44%, with minor amounts of molybdenum, gold and silver. An induced polarization survey is planned to determine the direction and extent of the mineralized zone and as a guide to follow-up drilling.

An exploration agreement has been entered into with Rayrock Mines Limited, Toronto, Canada, whereby that company has a right to earn up to a 51% interest in 144 mineral claims of the total by carrying out an exploration and drilling program during the years 1970 to 1973 inclusive, which program commenced in May, 1970.

Property	Number of Claims	Type of Prospect
1. Chuchi Group	16	Lead - Zinc
2. Babine Lake	37	Copper
3. Ootsa Lake	40	Copper
4. Shelford Hills	18	Copper
5. Tetachuck Lake	20	Copper
6. Mag Group	24	Molybdenum
7. Mons Lake	174	Copper-Molybdenum
8. Forest Grove	16	Copper
9. Roger Lake	42	Copper
10. Spring Lake	16	Copper
11. Spaplem Creek	184	Copper
12. Eagle Creek	22	Copper
13. East Barriere Lake	144	Copper
14. North Barriere Lake	46	Copper
15. Nulki Hills	18	Copper-Zinc
16. Kamloops Lake	43	Copper
17. Frederick Sliding	42	Copper
18. Windfall Hills	32	Copper
19. Highland Valley	106	Copper
20. Iron Mask 2 leases	73	Copper
21. Barhartvale	22	Copper
22. Dardanelles Lake	17	Copper
23. Beece Creek	30	Copper
24. Flathead Area, B.C.	19,594 acres	Coal
25. Flathead Area, Montana	5,085 acres	Coal



MINING PROPERTIES  
OF  
ROYAL CANADIAN VENTURES LTD.  
AND  
ASSOCIATED COMPANIES  
IN THE PROVINCE OF  
BRITISH COLUMBIA

## MINING EXPLORATION AND DEVELOPMENT

### NORTHWEST TERRITORIES

During 1969 the Dynamic Group initiated an active exploration program in the Northwest Territories resulting in what would appear to be significant discoveries of uranium and other minerals. The following areas in particular will be evaluated by a large scale exploration and diamond drilling program during 1970.

#### Baker Lake Area

Following is the complete text of a press release made jointly by New Continental Oil Company of Canada Limited on behalf of the Dynamic Group of which Dynamic Petroleum Products Ltd. is a member, Petrobec Limited (a subsidiary of Westburne International Industries Ltd.) and Citizens Pipeline Limited, on April 21, 1970, relative to work completed to date in the Baker Lake region of the Northwest Territories and plans for the remainder of 1970:

*For Release Noon, April 21, 1970.*

#### Summary

- Disclosure of discoveries of molybdenum and silver in addition to uranium at Baker Lake, Northwest Territories.
- Mineral holdings increased to 627,000 acres.
- Commencement by about May 1, 1970, of an extensive exploration and diamond drilling program.

Two significant mineral discoveries were made in the Baker Lake region of the Northwest Territories by New Continental Oil Company of Canada Limited

and its associates, Petrobec Limited of Montreal, a subsidiary of Westburne International Industries Ltd. and Citizens Pipeline Limited, a wholly owned subsidiary of Lochiel Exploration Ltd. of Calgary. The discoveries, both believed to be of hydrothermal origin and ore grade, are located on Exploration Permit No. 109 and resulted from ground followup to an airborne radiometric survey carried out by Scintrex Limited of Toronto. Consulting Geologists for the project are A.C.A. Howe International Limited, Toronto. Significant minerals encountered are uranium, molybdenum, and silver.

The first discovery was made on an anomaly located in the Kazan Sandstone where initial prospecting and trenching has been completed and a Winkie diamond drill (a prospecting drill used for shallow testing) was employed to drill one hole at -45 degrees at right angles to the structure to a depth of 46 feet. Chemical analyses over this 46 feet have yielded a continuous  $U_3O_8$  content with an average of 0.077% (1.54 #/Ton); also 0.025% molybdenum sulphide and traces of gold and silver.

The second discovery was made on an anomaly located approximately six miles north of the first, and is associated with a geologic feature in the basement granitic complex. A radioactive zone has been delineated by prospecting, and some trenching has been done. A hole drilled at -45 degrees at right angles to the structure to a depth of 36 feet with a Winkie diamond drill, yielded a chemical analysis of 0.338% of  $U_3O_8$  (6.76 #/Ton) over a continuous 22-foot interval from 11 feet to 33 feet. The same drill hole yielded by chemical analysis 0.658% molybdenum sulphide over 14 feet, or 0.37% over 26 feet. One 2-foot sample averaged 2.00%  $U_3O_8$ , 1.50 oz. of silver and 2.90% molybdenum sulphide.

A second hole on this anomaly, 220 feet from the first, was drilled at -45 degrees at right angles to the structure and gave erratic readings over its 38 feet of depth, ranging from nil to 0.06%  $U_3O_8$  (1.2 #/Ton). By chemical analysis the same drill hole indicated an average of 0.102% molybdenum sulphide over a length of 32 feet.

## MINING EXPLORATION AND DEVELOPMENT

*Both discoveries are highly encouraging because of their location on tide water and its beneficial effect on the potential economic development of the area.*

*Following the discoveries, 75 mineral claims were staked covering anomalies lying outside the permit areas. Recently three additional mineral prospecting permits have been acquired on trend by the group, bringing the total area now under permit to approximately 627,000 acres.*

*A large scale exploration and diamond drilling program is now being planned to commence in this area about May 1, 1970.*

*The project is owned 40% by the Dynamic Group, 40% by Petrobec Limited of Montreal, a subsidiary of Westburne International Industries Ltd., and 20% by Citizens Pipeline Limited, a wholly owned subsidiary of Lochiel Exploration Ltd. of Calgary.*

*A. P. Newall, Jr., President  
New Continental Oil Company  
of Canada Limited*

### Kazan Falls Area

The Dynamic Group conducted an extensive airborne survey over the Kazan Falls region of the Northwest Territories in 1969. As a result of these surveys and considerable ground follow-up, 791 mineral claims have been staked on the anomalous areas where uranium mineralization has been delineated on the ground and three mineral prospecting permits comprising approximately 480,000 acres have been acquired in this area.

An exploration agreement has been entered into with Dynamic Mining Exploration Ltd. (No Personal Liability) under the terms of which Dynamic Mining has acquired an undivided 25% interest in these properties and has the option to earn up to 50%.

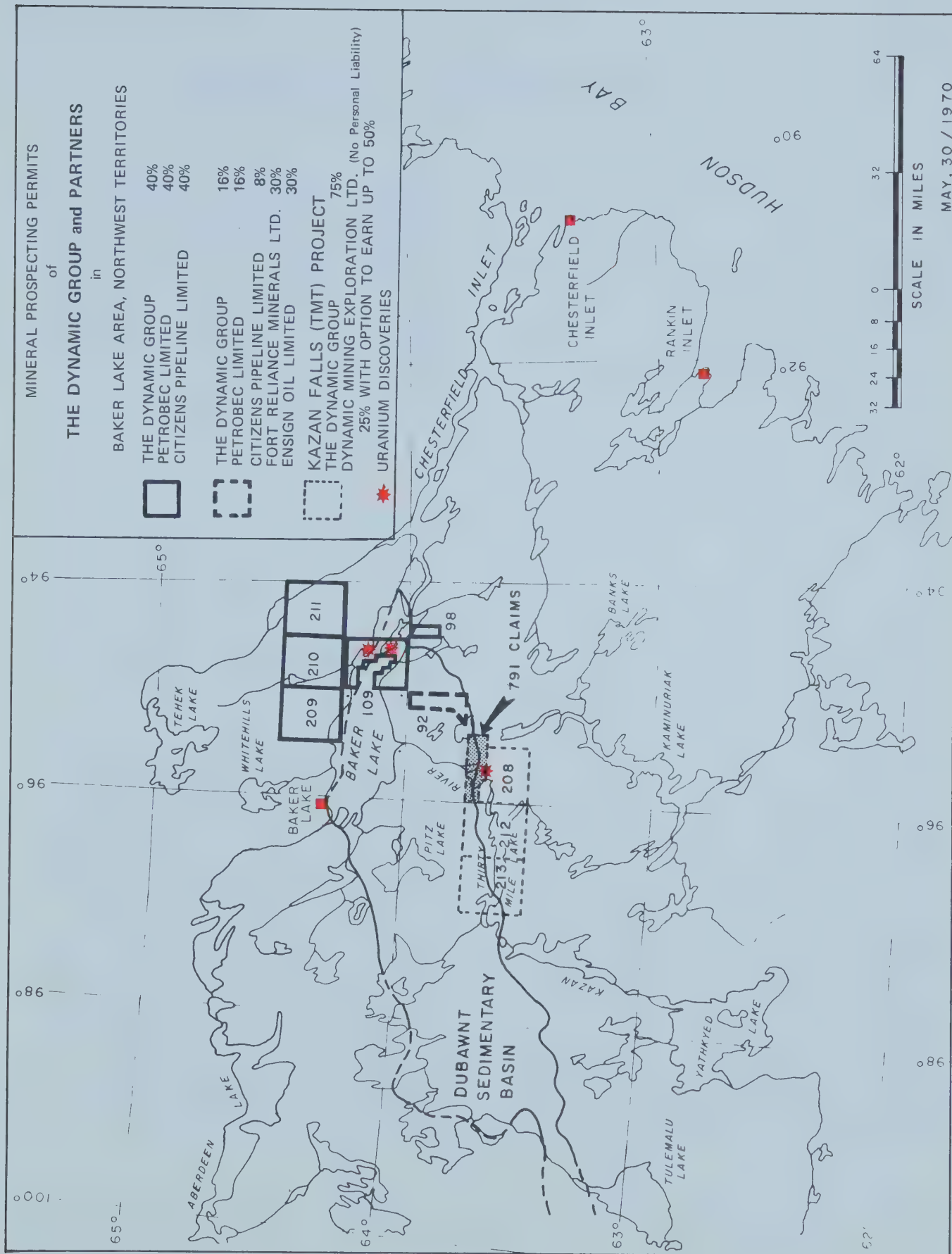
The Dynamic Group, including Dynamic Mining, will conduct a major work program over these lands during 1970 consisting of airborne and ground geophysics, geological mapping, geochemistry, and deep drilling is envisioned.

The company owns 14.3% of the interest held by the Dynamic Group, excluding Dynamic Mining, in these properties.

### Nonacho Area

In this area, consisting of some 300 mineral claims, Canadian Superior Exploration Limited conducted geophysical, geological and geochemical studies, followed by an extensive exploratory diamond drilling program, during 1969 and the early part of 1970. Work done by Canadian Superior, however, failed to locate the source of the radioactive material discovered on the surface, and as a result, the agreement has been terminated. The Dynamic Group now holds 100% interest in the properties, while Mill City shares to the extent of 14.3%.

At present our geological staff is reviewing all the work done and results obtained by Canadian Superior to determine future plans for this property.



## **MINING EXPLORATION AND DEVELOPMENT**

### **NORTHERN SASKATCHEWAN**

#### **Area 1**

Since Gulf Minerals Company made their initial uranium discovery in late 1968, they have undertaken a multi-phase operation on the lands in which the Dynamic Group maintains a net profits interest. Both Gulf and ourselves are tremendously enthusiastic about the results obtained to date.

As a result of their 1968 exploration program, Gulf selected a site for a deep test which they drilled to in excess of 5,000 feet on one of the three permits located in the centre of the Athabasca Sandstone Basin. No information has been released as yet on the results of this test. The program for the eastern permits which contain approximately 1,244,366 acres, was broken down into two parts - a general exploration program over the main portion of the lands and an exploration and development program on the discovery area now known as the Rabbit Lake deposit. The general exploration program is being conducted out of the Gulf City camp as an independent operation, with selected personnel experienced in modern geological and geophysical methods and the Rabbit Lake development is being conducted out of a new camp located at the deposit where modern permanent buildings have been constructed. Drilling on this deposit commenced in February, 1969 and continued with three drills on a 24-hour basis until the end of October, 1969 when drilling was suspended over the freeze-up period.

Initial drilling was done to determine the length of the ore body; however, when some 1,600 feet of strike length had been obtained, the program was changed to in-fill drilling

to provide information for calculating ore reserves, ore grade, mining costs and other economic studies necessary to determine mine and mill feasibility. During the winter program five diamond drills were operated over frozen water areas for the purpose of delineating the Rabbit Lake ore body and Gulf geological, geophysical and engineering personnel were actively engaged in studying and correlating results obtained.

Independent of this operation, a winter drilling program was commenced on January 5, 1970, by Gulf Minerals on several of the uranium prospects located as a result of the general exploration program conducted during 1969. Three drills were employed on this project during the winter program, each located on a separate prospect.

Mill City Petroleum Limited has a direct 12.5% interest in 20% of the net profits accruing under the terms of the Gulf Minerals agreement.

#### **Area 7**

This area comprises three mineral exploration permits held in the name of Dynamic Petroleum Products Ltd. The company has a direct 12.5% interest in these permits which contain approximately 400,000 acres located on the southwest end of the Wollaston Lake fold belt.

During the summer of 1969 an airborne survey was conducted by Scintrex over these lands with electromagnetic, magnetic and spectrometer systems installed in a helicopter. Flight lines were flown at right angles to the strike of the formation on a quarter-mile spacing. During the same period our geological crews were on the ground checking anomalies as

## **MINING EXPLORATION AND DEVELOPMENT**

these became available and generally mapping the permits. Some radioactive anomalies were checked out on the ground with one showing as a prime prospect. Although time did not permit detailed evaluation of this prospect, surface sampling indicated uranium mineralization over considerable length and width. This prospect plus the remainder of the results from the 1969 airborne program are scheduled for evaluation during our 1970 exploration program.

### **Area 9**

This area comprising 27,635 acres, lies in the Head Lake region, northwest of La Ronge, Saskatchewan, in proximity to a recently announced nickel discovery. Airborne magnetics and electromagnetics have been flown over these properties and further surface work on airborne anomalies is now being considered. The company has a direct 14.3% interest in this property.

## **COAL PROPERTIES**

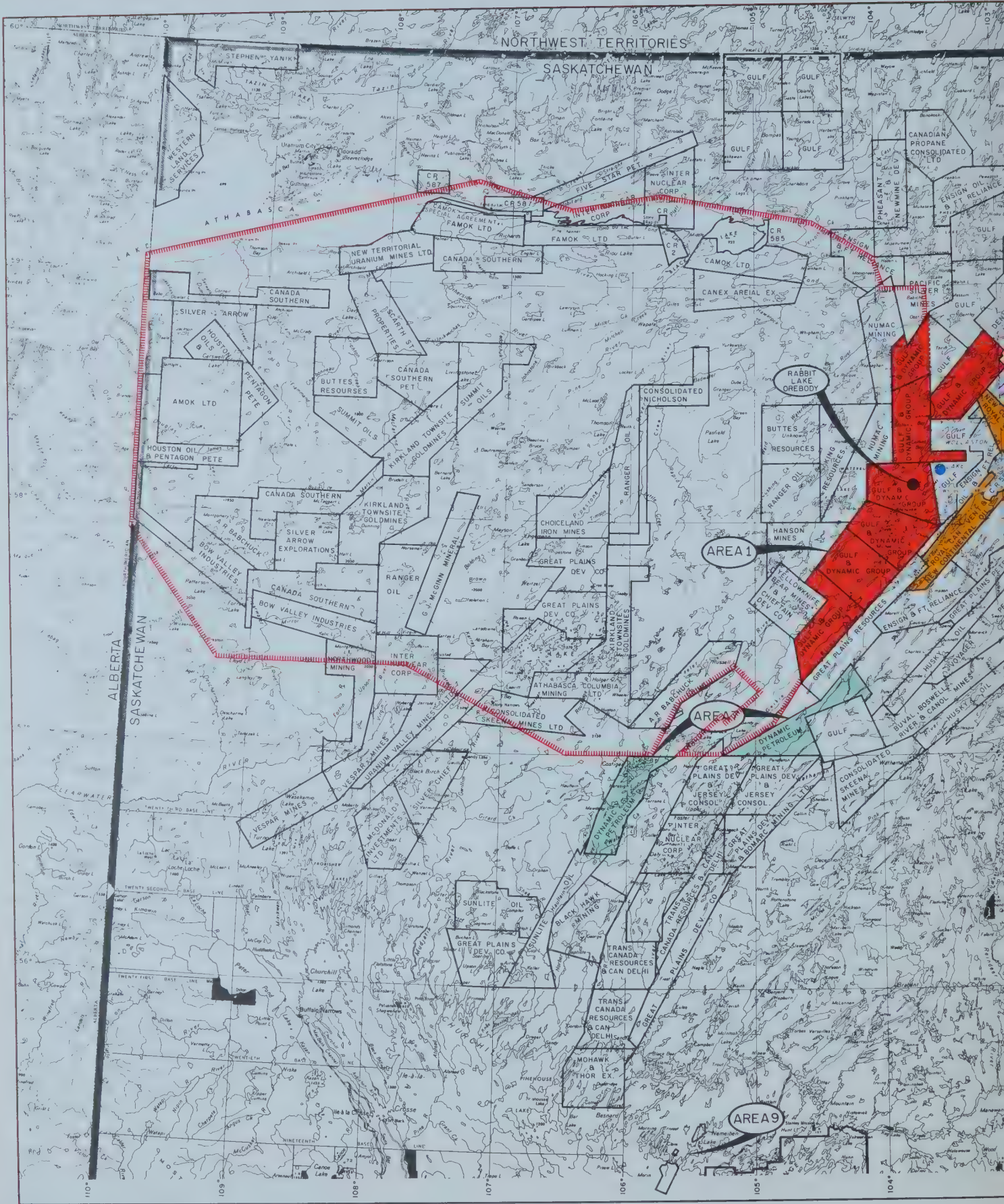
### **PANTHER RIVER, ALBERTA**

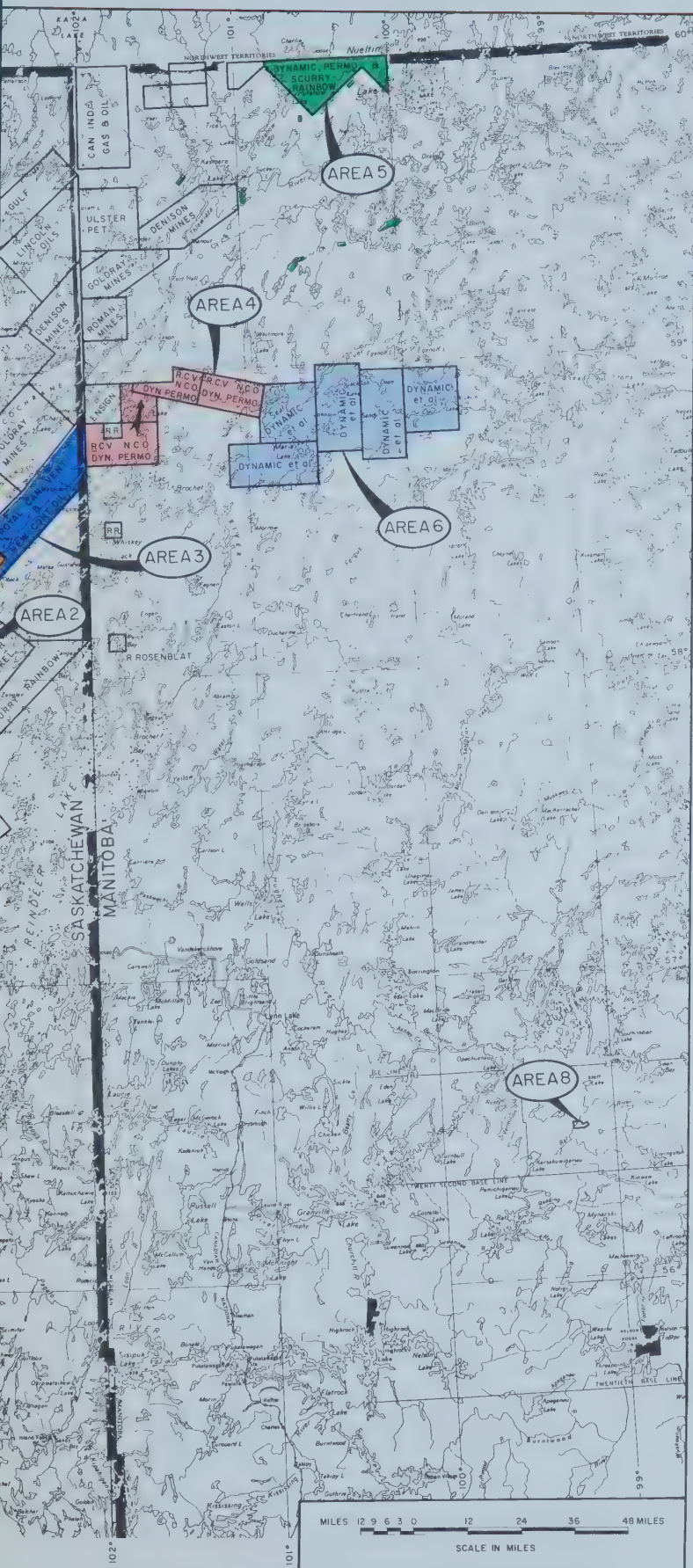
In October, 1969, an agreement was entered into between Mill City Petroleums Limited and CanPac Minerals Limited (wholly-owned subsidiary of Canadian Pacific Investments Ltd.) as Farmors and Meadowlark Farms, Inc. of Indianapolis, Indiana, U.S.A., as Farmee, whereby Meadowlark can earn an undivided 50% interest in 17,320 acres of coal leases at Panther River, Alberta, by conducting a substantial exploration and drilling program on the property. Meadowlark Farms, Inc. is a wholly-owned subsidiary of Ayrshire Collieries Corporation, which is controlled by American Metal Climax Inc.

In 1969 Meadowlark conducted a very detailed geological survey of the property entailing an expenditure in excess of \$50,000 to earn the right to conduct the above program.

Under the terms of the agreement, Meadowlark is the operator and must have its initial drilling program completed by October 31, 1970. The operator reports that equipment and personnel are now on the property ready for an immediate start.

Mill City Petroleums Limited acquired an undivided 50% interest in this property in 1966 from Canadian Pacific Oil and Gas Limited. Subsequently both companies expended approximately \$100,000 on exploration on these lands. In 1967 an agreement was made between Mill City Petroleums Limited, Canadian Pacific Oil and Gas Limited as Farmors, and Mitsui & Co. Ltd. and Mitsui Mining Co. Ltd. as Farmees. Under this agreement the Mitsui Companies expended approximately \$300,000 on drilling and exploration. In 1968 the Farmee wished to renegotiate the agreement and was not successful which resulted in termination of the agreement.





## WOLLASTON LAKE URANIUM AREA CANADA

### AREA



GULF 80% AND THE DYNAMIC GROUP 20%

DYNAMIC PETROLEUM PRODUCTS LTD.  
ROYAL CANADIAN VENTURES LTD.  
MILL CITY PETROLEUMS LIMITED  
CONSOLIDATED EAST CREST OIL COMPANY LIMITED  
NEW CONTINENTAL OIL COMPANY OF CANADA LIMITED  
CRUSADE PETROLEUM CORPORATION LIMITED  
DYNALTA OIL & GAS LTD.



AREA OF COMMON INTEREST as defined under the Gulf - Dynamic Group Agreement — approximately 20,000,000 acres.



ROYAL CANADIAN 20%  
NEW CONTINENTAL 20%  
EXCEL PETROLEUMS LTD. 40%\*  
SCURRY-RAINBOW OIL LIMITED 20%\*\*

\*Subject to an expenditure of \$1,700,000 in a period of four years or less; otherwise the interest reverts to Royal Canadian and New Continental.

\*\*Subject to the proviso that Scurry-Rainbow shall be obligated to assume and pay 60% of such additional expenditures up to a maximum of \$5,000,000.



ROYAL CANADIAN 20%  
NEW CONTINENTAL 20%  
SCURRY-RAINBOW 40%\*  
SCURRY-RAINBOW 20%\*\*

\*Subject to an expenditure of \$825,000 in a period of four years or less; otherwise the interest reverts to Royal Canadian and New Continental.

\*\*Subject to the proviso that Scurry-Rainbow shall be obligated to assume and pay 60% of such additional expenditures up to a maximum of \$5,000,000.



ROYAL CANADIAN 10%  
NEW CONTINENTAL 10%  
DYNAMIC PETROLEUM 16%  
PERMO GAS & OIL LIMITED 4%  
SCURRY-RAINBOW 40%\*  
SCURRY-RAINBOW 20%\*\*

\*Subject to an expenditure of \$678,500 in a period of four years or less; otherwise the interest reverts to Royal Canadian and New Continental.

\*\*Subject to the proviso that Scurry-Rainbow shall be obligated to assume and pay 60% of such additional expenditures up to a maximum of \$5,000,000.



DYNAMIC PETROLEUM 64%  
PERMO GAS & OIL LIMITED 16%  
SCURRY-RAINBOW 20%\*

\*Subject to the proviso that Scurry-Rainbow shall be obligated to assume and pay 60% of such additional expenditures up to a maximum of \$5,000,000.



DYNAMIC PETROLEUM 25%\*  
DYNALTA OIL & GAS CO. LTD. 25%\*  
NEW CONTINENTAL 25%\*  
CRUSADE PETROLEUM 25%\*

\*Subject to the right of Dynamic Mining to earn a 40% interest by spending \$150,000



THE DYNAMIC GROUP 87%



NEW CONTINENTAL 50%  
ROYAL CANADIAN 50%  
24 Mineral Claims

#### NOTE 1

The net profits interest retained by the Dynamic Group of Companies under the terms of the Gulf agreement before and after taking into consideration the inter-company share ownership, is shared approximately as follows:

	Direct Interest	Approximate Indirect Interest in Inter-Company Shareholdings	Total
Dynamic Petroleum Products Ltd.	12.50	12.99	25.49
Royal Canadian Ventures Ltd.	12.50	5.00	17.50
Mill City Petroleum Limited	12.50	13.78	26.28
Permo Gas & Oil Limited	—	19.24	19.24
New Continental Oil Company of Canada Limited	12.50	3.57	16.07
Consolidated East Crest Oil Company Limited	12.50	0.26	12.76
Crusade Petroleum Corporation Limited	12.50	0.22	12.72
Dynalta Oil & Gas Co. Ltd.	12.50	0.25	12.75
	87.50	Totals not Applicable	

#### NOTE 2

Scurry-Rainbow Oil Limited acquired its 20% interest in the various agreements indicated in the legend for a consideration of 15,000 shares of Scurry Rainbow or \$600,000, and also an undertaking by Scurry-Rainbow to assume and pay 60% of such additional expenditures as may be required up to a maximum of \$5,000,000 on each of the four agreements for a total of \$20,000,000 maximum.

#### NOTE 3

The permits on this map are in the names of the companies as shown and compiled from information believed to be reliable but not guaranteed.

These permits give the holder the right to explore for all minerals (including uranium) but excepting petroleum and natural gas, coal, and in Saskatchewan, those described as alkali minerals.

Average Permit size - 192,000 acres (300 square miles).

#### NOTE 4

Permits as at May 30, 1970

# Mill City Petroleum Limited

## STATEMENT OF INCOME AND RETAINED EARNINGS

For the Year Ended December 31, 1969

(with comparative figures for 1968)

	1969	1968
REVENUE		
Crude oil and natural gas sales less royalties . . . . .	\$ 456,003	\$ 442,951
Less production and processing costs . . . . .	109,546	120,859
	<u>346,457</u>	<u>322,092</u>
Royalties . . . . .	1,276	1,326
Interest . . . . .	3,289	5,306
Rental . . . . .	9,493	4,918
Other . . . . .	5,714	-
	<u>366,229</u>	<u>333,642</u>
EXPENSE		
Administrative and general - excluding depreciation		
1969 - \$81,099; 1968 - \$41,062 . . . . .	36,887	76,165
Exploration and survey costs . . . . .	94,777	47,180
Property carrying costs, lease rentals, etc. . . . .	25,092	37,493
Interest . . . . .	41,089	36,984
	<u>197,845</u>	<u>197,822</u>
CASH EARNINGS FROM OPERATIONS . . . . .	<u>168,384</u>	<u>135,820</u>
DEDUCT		
Depletion . . . . .	84,156	89,645
Depreciation . . . . .	111,484	78,133
Abandonments:		
Petroleum and natural gas and mining interests . . . . .	2,787	1,026
Well development costs . . . . .	1,306	16,609
Write-off advances to subsidiary companies . . . . .	55	2,728
	<u>199,788</u>	<u>188,141</u>
ADD		
Gain on sale of properties . . . . .	<u>1,965</u>	<u>188,008</u>
NET (LOSS) PROFIT FOR THE YEAR (Notes 4 and 5)	(29,439)	135,687
RETAINED EARNINGS, beginning of year . . . . .	<u>1,975,735</u>	<u>1,840,048</u>
RETAINED EARNINGS, end of year . . . . .	<u>\$1,946,296</u>	<u>\$1,975,735</u>

See accompanying notes.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants,  
dated March 25, 1970.

# Mill City Petroleums Limited

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended December 31, 1969

(with comparative figures for 1968)

	1969	1968
<b>SOURCE OF FUNDS</b>		
Cash earnings from operations . . . . .	\$168,384	\$135,820
Increase in bank loans, net of amount included in current liabilities. . . . .	14,287	375,000
Proceeds from sale of properties . . . . .	13,587	240,836
Special refundable tax . . . . .	1,822	-
Other . . . . .	171	82
	<u>198,251</u>	<u>751,738</u>
<b>APPLICATION OF FUNDS</b>		
Petroleum and natural gas and mining interests . . . . .	7,076	1,063
Well development costs, including dry holes . . . . .	1,861	66,585
Production equipment - net . . . . .	1,537	29,872
Aircraft and other equipment - net . . . . .	358,393	281,919
Advances to subsidiary company . . . . .	55	55
Increase (decrease) in operating and performance deposits . . . . .	10,104	(28,848)
	<u>379,026</u>	<u>350,646</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY . . . . .</b>	<b>180,775</b>	<b>(401,092)</b>
<b>WORKING CAPITAL DEFICIENCY, beginning of year . . . . .</b>	<b><u>47,537</u></b>	<b><u>448,629</u></b>
<b>WORKING CAPITAL DEFICIENCY, end of year . . . . .</b>	<b><u>\$228,312</u></b>	<b><u>\$ 47,537</u></b>

See accompanying notes.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants,  
dated March 25, 1970.

# *Mill City Petroleums Limited*

## NOTES TO FINANCIAL STATEMENTS

December 31, 1969

### 1. ACCOUNTING POLICY

The Company's policy is to capitalize the acquisition costs of petroleum and natural gas and mining interests together with drilling and development costs. Carrying costs and exploration expenses are charged against income as incurred. Acquisition costs of producing properties are depleted on a unit of production basis. Well development costs and production equipment are written off over the estimated productive life of the properties. The costs of non-producing properties and unproductive development are charged against income in the year of abandonment.

### 2. INVESTMENTS

The Company has two foreign subsidiary companies whose accounts have not been consolidated with those of the company because they have been inactive and have no assets. Advances to the companies totalling \$55 have been written off in the current year.

### 3. BANK LOANS

The bank loans are secured by an assignment of interests in certain producing properties and a chattel mortgage on a company aircraft. Although the loans are subject to call on demand, under the agreed terms of repayment, monthly payments of \$18,750 are required.

### 4. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Included in the Statement of Income and Retained Earnings is an amount of \$45,998, being the Company's share of remuneration paid to directors and senior officers.

### 5. INCOME TAXES

For income tax purposes, the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related expenses reflected in its accounts. For 1969 the Company intends to claim, for income tax purposes, capital cost allowance in excess of depreciation provided in the accounts. In addition, the company will claim other specified deductions in an amount sufficient to eliminate taxable income.

The Company has filed its income tax returns on the basis that there are sufficient amounts deductible for drilling and exploration expenses to eliminate taxable income for the current and prior years. The Department of National Revenue has questioned the deductibility of certain drilling and exploration expenses applied against income of previous years. The Company does not anticipate that it will have to pay any income taxes in respect of this matter and has calculated that expenditures remain to be carried forward and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs	\$774,000
Undepreciated capital cost	\$434,000

Management is of the opinion that it is not appropriate to provide for income taxes deferred as a result of timing differences between accounting income and taxable income.

If the Company had followed the deferred tax accounting concept in respect of timing differences for depreciable assets the resulting provision for deferred taxes would have increased by approximately \$48,000 in 1969 and \$33,000 in 1968, with a resulting charge of a similar amount to net income. There were no timing differences related to depreciable assets prior to 1968.

If the Company had followed the deferred tax accounting concept in respect of all timing differences between accounting income and taxable income, provisions for deferred taxes estimated at \$6,300 (credit) for 1969 and \$39,900 for 1968 would have been required and the cumulative amount at December 31, 1969 would have been approximately \$221,500.

## AUDITORS' REPORT

To the Shareholders of  
Mill City Petroleums Limited

We have examined the balance sheet of Mill City Petroleums Limited as of December 31, 1969 and the statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except that provision for taxes on income has not been made on the deferred tax basis in respect of depreciable assets as explained in Note 5, these financial statements present fairly the financial position of the company at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants

Calgary, Alberta  
March 25, 1970

# Mill City Petroleums Limited

## ACREAGE HOLDINGS AT DECEMBER 31, 1969

### PETROLEUM AND NATURAL GAS INTERESTS

PRODUCING P&NG LEASES	ACREAGE	INT. %	FARMEE OR OPERATOR
Alberta			
Bonnyville . . . . .	1,280	100.	Mill City
Hussar . . . . .	3,840	43.125	" "
Hussar . . . . .	1,920	14.375	" "
Hussar . . . . .	1,120	27.5	" "
Innisfail . . . . .	320	1. Net.Roy.	Union Oil Holdings
Joffre . . . . .	80	.9375	GOR Sun Oil Company
Leduc . . . . .	320	100.	Mill City
New Norway . . . . .	160	20.	Canadian Superior Oil
Pembina . . . . .	320	1.	GOR Ashland Oil & Refining
Rainbow . . . . .	320	12.5	New Continental Oil Company
Rainbow . . . . .	480	25.	" " " "
Turner Valley . . . . .	40	11.5	GOR Mill City
Turner Valley . . . . .	40	4.	GOR " "
Saskatchewan			
Hoosier . . . . .	790	10.	Canadian Industrial Gas & Oil
Midale . . . . .	79	50.	Berkley Oil and Gas
	<u>11,109</u>		
UNITIZED		Tract Factor	
Alberta			
Harmatton Elkton Unit No. 1 . . . . .	160	.1087	Canadian Superior Oil
Innisfail Leduc Reef Unit . . . . .	80	.1595	Shell Canada
Joffre Viking Sand Unit - Seg. A . . . . .	440	2.4759	Imperial Oil Ltd.
Kessler Viking Gas Unit . . . . .	25,278	11.5884	Canadian Industrial Gas & Oil
Turner Valley Unit No. 5 . . . . .	80	.3153	Gulf Oil Canada Limited
Turner Valley Unit No. 7 . . . . .	362	3.9299	" " " "
Wainwright Unit No. 6 . . . . .	100	7.5253	Husky Oil
	<u>26,500</u>		
NON-PRODUCING P&NG LEASES			
Alberta			
Haig River . . . . .	6,080	100.	Mill City
Jenner . . . . .	42,674	10.	Dynamic Petroleum Products Ltd.
Jenner (NG) . . . . .	16,819	10.	" " " "
Jenner (NG) . . . . .	960	5.	" " " "
Kessler (NG) . . . . .	2,613	12.5	Canadian Industrial Gas & Oil
Kessler (NG) . . . . .	7,075	18.75	" " " "
Lochend . . . . .	320	25.	Supertest Petroleum
Lochend . . . . .	320	25.	New Continental Oil Company
Lochend . . . . .	320	12.5	Dome Petroleum
Margaret Lake . . . . .	92,960	25.	Canadian Superior Oil

Interest percentages, unless otherwise noted, are working interests.

GOR - Gross Overriding Royalty

	ACREAGE	INT. %	FARMEE OR OPERATOR
New Norway . . . . .	160	40.	Canadian Tricentrol
Pembina . . . . .	318	16.6666	Great Plains Development
Rainbow Lake . . . . .	320	60.61	Canadian Industrial Gas & Oil
Rainbow South . . . . .	320	20.	New Continental Oil Company
Steele Lake . . . . .	640	20.	Mill City
Stony Plain . . . . .	320	100.	" "
Turner Valley . . . . .	4,360	100.	" "
Wainwright . . . . .	120	50.	" "
Wainwright . . . . .	160	25.	" "
Wayne-Rosedale . . . . .	2,480	12.5	Mobil Oil
Saskatchewan			
Arcola . . . . .	160	100.	Mill City
Arcola N.W. . . . .	640	33.3333	" "
Auburnton . . . . .	160	33.3333	" "
Pinto . . . . .	880	17.5	Canadian Delhi
Rapdan Loomis . . . . .	80	25.	Mill City
Rapdan Loomis . . . . .	3,737	16.6666	" "
	<u>184,996</u>		
P&NG PERMITS			
Arctic Islands . . . . .	100,735	.6	Panarctic Oils Ltd.
" " . . . . .	3,869,880	5.9044	" " "
" " . . . . .	160,415	4.2328	" " "
	<u>4,131,030</u>		
P&NG LEASES			
Alberta			
Birch Mountain . . . . .	49,940	.75	GOR Imperial Oil Enterprises
Buffalo Head Hills . . . . .	15,360	1.5	GOR Amerada Petroleum
Cameron Hills . . . . .	10,240	3.	GOR Home Oil Company
Caribou Mountains . . . . .	49,920	2.5	GOR Mobil Oil Canada
Caribou Mountains . . . . .	242,560	2.5	GOR Imperial Oil Enterprises
Caribou Mountains . . . . .	13,440	3.	GOR Home Oil Company
Caribou Mountains . . . . .	99,840	1.5235	GOR Chevron Standard
Caribou Mountains . . . . .	23,040	2.5	GOR Chevron Standard
Genessee . . . . .	640	2.5	GOR Canadian Superior Oil
High Level . . . . .	43,200	.9375	GOR Imperial Oil Enterprises
Hines Creek . . . . .	1,280	2.5	GOR Shell Canada
Kessler . . . . .	640	4.	GOR gas Dome Petroleum
		1.5	GOR oil " "
Legend Lake . . . . .	69,760	2.5	GOR Imperial Oil Enterprises
Pembina . . . . .	320	1.	GOR Ashland Oil & Refining
Rainbow Lake . . . . .	320	2.5	GOR Banff-Aquitaine
Saskatchewan			
Quill Lake . . . . .	25,514	2.5	GOR Shell Canada Limited
Pinto . . . . .	640	.4375	GOR Great Plains Development
	<u>646,654</u>		
PERMITS			
Northwest Territories			
Fish Lake . . . . .	260,212	2.5	GOR Mic Mac Oils (1963) Ltd.
Fort Providence . . . . .	457,350	.625	GOR Imperial Oil Enterprises
Fort Providence . . . . .	119,608	.625	GOR Chevron Standard Limited
Fort Providence . . . . .	239,548	.625	GOR Northern Oil Explorers Ltd.
Fort Providence . . . . .	118,950	.625	GOR Shell Canada Limited
Fort Providence . . . . .	208,450	.625	GOR Mobil Oil Canada
Fort Providence . . . . .	61,920	2.5	GOR Imperial Oil Enterprises
	<u>1,466,038</u>		
OFF-SHORE PERMITS			
St. Lawrence Basin . . . . .	2,320,673	1.6666	GOR Hudson's Bay Oil & Gas

## MINERAL INTERESTS

BRITISH COLUMBIA	NUMBER	INT. %	FARMER OR OPERATOR
CLAIMS			
B Group . . . . .	22	14.2857	Royal Canadian Ventures Ltd.
Beece Creek . . . . .	30	"	" " "
Babine Lake . . . . .	37	"	" " "
Chuchi . . . . .	16	"	" " "
Dardanelles Lake . . . . .	17	"	" " "
Eagle Creek . . . . .	22	"	" " "
East Barriere Lake . . . . .	144	"	" " "
Forest Grove . . . . .	16	"	" " "
Frederick Siding . . . . .	42	"	" " "
Iron Mask . . . . .	73	"	" " "
Kamloops Lake . . . . .	43	"	" " "
Mag . . . . .	24	"	" " "
Mons Lake . . . . .	174	"	" " "
North Barriere Lake . . . . .	46	"	" " "
Nulki Hills . . . . .	16	"	" " "
Ootsa Lake . . . . .	40	"	" " "
Roger Lake . . . . .	42	"	" " "
Shelford Hills . . . . .	18	"	" " "
Spapilem Creek . . . . .	184	"	" " "
Spring Lake . . . . .	16	"	" " "
Tetachuk Lake . . . . .	20	"	" " "
Windfall Hills . . . . .	32	"	" " "
	<u>1,074</u>		
LEASES			
Iron Mask . . . . .	2	14.2857	Royal Canadian Ventures Ltd.
COAL LICENCES	ACREAGE		
Flathead . . . . .	19,594	90.	Steel Company of Canada
ALBERTA			
COAL LEASES			
Panther River . . . . .	17,320	50.	Mill City
SASKATCHEWAN			
PERMITS			
Wollaston Lake . . . . .	1,820,366	12.5% interest in 20% defined net profits interest	Gulf Minerals Company
Wollaston Lake . . . . .	363,800	12.5	New Continental Oil Company
CLAIM BLOCKS			
Head Lake . . . . .	27,635	14.2857	" " " "
Wollaston Lake . . . . .	21,565	12.5	" " " "
NORTHWEST TERRITORIES			
PERMITS			
Baker Lake . . . . .	337,010	5.7143	Petrobec Limited
Baker Lake . . . . .	333,960	2.2857	New Continental Oil Company
CLAIMS	NUMBER		
Baker Lake . . . . .	75	5.7143	Petrobec Limited
Baker Lake . . . . .	791	14.2857	New Continental Oil Company
Hjalmar Lake . . . . .	237	14.2857	Canadian Superior Exploration
Hjalmar Lake . . . . .	44	14.2857	New Continental Oil Company
MONTANA	ACREAGE		
COAL PROSPECTING PERMIT			
Flathead . . . . .	5,085	90.	New Continental Oil Company







